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NEWS RELEASE

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PSC Accepts Settlement in Big Rivers Electric Corp. Environmental Compliance Case

Cost drops from \$283.5 million to \$58.5 million; rate impact lessened

FRANKFORT, Ky. (Oct. 1, 2012) – The Kentucky Public Service Commission (PSC) has accepted a settlement regarding a proposed environmental compliance plan and associated environmental surcharge request submitted by Big Rivers Electric Corp.

Under the settlement, Big Rivers will not construct the most costly emission control projects it proposed in its original plan, thus reducing the total cost by about 80 percent. The modified plan will cost \$58.5 million - \$225 million less than Big Rivers originally proposed.

As a result, ratepayers on the Big Rivers system will see a smaller impact of the environmental compliance costs on their electric bills.

Most of the changes in the environmental compliance plan are the result of a federal court decision that overruled certain emission control rules issued by the U.S. Environmental Protection Agency (EPA). The dropped projects were intended to comply with those regulations.

Because the federal court ordered the EPA to produce new regulations to address the same types of emissions, electric utilities such as Big Rivers may be required to install additional controls in the future.

The federal court decision came a day before the Aug. 22, 2012, start of the formal evidentiary hearing on the Big Rivers application. The hearing was suspended for a day while the parties to the case negotiated the settlement. The PSC earlier held meetings in Paducah and Henderson to take public comments on the Big Rivers proposal.

Big Rivers is owned by and provides wholesale power to three rural electric distribution cooperatives: Jackson Purchase Energy Corp., Kenergy Corp. and Meade County Rural Electric Cooperative Corp. Together, the three cooperatives serve 112,000 customers in 22 counties in western Kentucky.

In addition to Big Rivers, the parties to the settlement are the Kentucky Office of Attorney General, representing ratepayers in general; the Kentucky Industrial Utility Customers, Inc., representing large industrial consumers; Kenergy Corp.; and the Sierra Club, which represented environmental interests.

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Big Rivers had proposed to construct new or upgraded pollution control systems at its power plants in Hawesville (Coleman plant), Centertown (Wilson plant) and Sebree (Green and Reid plants). Nearly half the cost of the original plan was to go for a system commonly known as a scrubber, as well as associated facilities, at the Wilson plant. Big Rivers also proposed to complete the conversion of the Reid plant to burn natural gas instead of coal, at a cost of \$1.2 million.

The settlement agreement removes the two most expensive projects – the \$139 million scrubber at Wilson and an \$81 million nitrogen oxide control system at Green – while retaining smaller projects to control mercury and soot at Coleman, Wilson and Green. It also includes the coal-to-gas conversion at Reid.

Reducing the number and cost of projects also reduces the projected impact on rates. Residential and commercial customers and all but the 22 largest industrial customers would not see their bills increase until about 2018, the company says. Total bills for the 22 largest industrial customers would increase in 2016 by amounts ranging from 2.7 percent to 3.4 percent, which is about a third to one-half of the increase under the original plan.

Although the environmental compliance costs would begin to be assessed in 2016, when the pollution control facilities go into operation, all but the 22 largest industrial customers would be insulated from any increases in their bills until sometime in 2018. Big Rivers will use two funds that were created in 2009 to temporarily insulate all but the largest customers on the Big Rivers system from future rate increases tied to fuel prices or environmental compliance costs.

Absent the funds established in 2009, bills for residential and commercial customers would go up by 3.6 percent in 2016, rather than in 2018.

Since 1994, Kentucky laws and regulations have allowed utilities such as Big Rivers to recover environmental compliance costs separately from their general rates. The costs are recovered through a surcharge that appears as a separate item on electric bills. Generation and transmission cooperatives such as Big Rivers pass the costs through to distribution cooperatives, who in turn pass them through to retail customers.

The Kentucky law under which the application is being considered – known as the environmental surcharge mechanism - gives the PSC more limited review and discretion than it has in general rate cases.

Today's order, the settlement agreement and other documents in the case are available on the PSC Web site, psc.ky.gov. The case number is 2012-00063.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 90 employees.